

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-05 H-01 INR-10  
L-03 NSAE-00 NSC-05 PA-01 SP-02 SS-15 ICA-11  
AID-05 COME-00 EB-08 FRB-03 TRSE-00 XMB-02  
OPIC-03 LAB-04 SIL-01 OMB-01 AGRE-00 /093 W  
-----033651 010733Z /11

R 010704Z JUN 78  
FM AMEMBASSY BERLIN  
TO SECSTATE WASHDC 7478  
INFO USDOC WASHDC  
AMEMBASSY WARSAW  
AMEMBASSY BELGRADE  
AMEMBASSY BONN  
AMEMBASSY BUCHAREST  
AMEMBASSY BUDAPEST  
AMEMBASSY LONDON  
AMEMBASSY MOSCOW  
AMEMBASSY PARIS  
AMEMBASSY PRAGUE  
AMEMBASSY SOFIA  
USMISSION USBERLIN  
USMISSION USNATO

C O N F I D E N T I A L SECTION 01 OF 02 BERLIN 03679

USDOC FOR BEWT

E.O. 11652: GDS  
TAGS: ECON, GE  
SUBJECT: THE PRIVATE SECTOR IN THE GDR

REF: 77 BERLIN 9109

1. SINCE THE FOUNDING OF THE GDR, THE ROLE OF THE PRIVATE  
SECTOR HAS STEADILY DIMINISHED AS AN ECONOMIC FACTOR  
AND TODAY EMPLOYS ONLY ROUGHLY 5 PERCENT OF THE TOTAL  
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WORK FORCE. RECENT EVIDENCE SUGGESTS, HOWEVER, THAT THE  
SHRINKAGE OF THE PRIVATE SECTOR HAS STABILIZED AND THAT,  
IN FACT, THE SECTOR MAY BE EXPANDING MODESTLY AS THE  
GDR SEEKS TO ACCOMMODATE CONSUMER DEMAND FOR RELATIVELY  
UNSOPHISTICATED GOODS AND SERVICES PROVIDED BY THIS  
SECTOR.

2. ALTHOUGH THE SIZE OF THE PRIVATE SECTOR IN THE GDR IS GREATLY DIMINISHED FROM PREVIOUS YEARS, THERE ARE STILL 411,000 (1976) PERSONS EMPLOYED IN THE PRIVATE SECTOR ACCOUNTING FOR THE PRODUCTION OF 20 BILLION MARKS IN GOODS AND SERVICES ANNUALLY. TO OPERATE, PRIVATE ENTREPRENEURS MUST POSSESS A "TRADE LICENSE" (GEWERBEGENEHMIGUNG) ISSUED BY THE STATE AND ARE SUBJECTED TO STATE REGULATION TO ASSURE THAT THEIR ACTIVITIES ARE IN ACCORDANCE WITH THE STATE PLAN. CRAFTSMEN SUCH AS CARPENTERS AND PLUMBERS COMPRISE THE LARGEST SEGMENT OF THE PRIVATELY EMPLOYED WORK FORCE (197,000 WORKERS IN 1976) WITH RETAIL TRADE ACTIVITIES COMING IN SECOND PLACE (46,000 EMPLOYED). THE NUMBER OF PERSONS ENGAGED IN PRIVATE MANUFACTURING INDUSTRY (2,600) BORDERS ON INSIGNIFICANCE.

3. PRIVATELY OWNED ENTERPRISES IN THE GDR ENCOMPASS A WIDERANGE OF ACTIVITIES, INCLUDING BUTCHER SHOPS AND BAKERIES, TAVERNS, TAXICABS, SMALL RETAIL OUTLETS AND VARIOUS REPAIR SERVICES. AS AN EXAMPLE OF THE SCALE OF ACTIVITY IN THE PRIVATE SECTOR, A NEUES DEUTSCHLAND ARTICLE APRIL 19, 1978, NOTED THAT 124 PRIVATE DEALERS PROVIDE SEVENTY PERCENT OF THE SOFT COAL SOLD TO HOUSEHOLDS IN EAST BERLIN; OTHER PRIVATE DISTRIBUTORS ACCOUNT FOR 30 PERCENT OF SALES OF SOAP, COSMETICS AND DRUGS; AND 16 PERCENT OF SALES TO PRIVATE PERSONS OF

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BUILDING MATERIALS IN EAST BERLIN.

4. OFFICIAL GDR STATISTICS DO NOT REPORT THE NUMBER OF PRIVATE TRADE LICENSES GRANTED IN THE GDR; A ND ARTICLE APRIL 20 REPORTING A SPEECH BY NDPD CHAIRMAN HOMANN, HOWEVER, STATES THAT 10,000 PRIVATE TRADE LICENSES HAVE BEEN GRANTED SINCE 1976. (EMBASSY UNDERSTANDS THAT THE COUNCIL OF MINISTERS APPROVED A DECISION IN FEBRUARY 1976 ALLOWING THE ISSUANCE OF 10,000 NEW TRADE LICENSES.) THE HOMANN SPEECH, WHICH CLAIMED AN EXPANDING ROLE FOR PRIVATE TRADESMEN IN REPAIR AND MAINTENANCE SERVICES OFFERED THE POPULATION, NOTED THAT "CRAFTSMEN AND TRADESMEN LIVING AND WORKING IN THE GDR DO SO WITH THE FEELING AND CERTAINTY THAT EACH HAS A PROTECTED POSITION AND AN ASSURED FUTURE." THE CHAIRMAN OF THE LDPD, MANFRED GERLACH, EXPRESSED A SIMILAR SENTIMENT TO THE AMBASSADOR DURING A CALL (REFTEL) WHEN HE EXPRESSED HIS CONCERN FOR THE NEED TO ENCOURAGE GROWTH IN THE NUMBER OF PRIVATE ARTISANS AND TRADESMEN IN THE GDR. THE APRIL 19 ND ARTICLE CITED ALSO QUOTES A DIRECTOR OF THE CHAMBER OF INDUSTRY AND TRADE IN EAST BERLIN AS SAYING THAT THERE WILL BE NO FUTURE SHRINKAGE IN THE

NUMBER OF PRIVATELY OPERATED ENTERPRISES. FINALLY, AMBASSADOR'S SWISS COLLEAGUE RECENTLY TOLD HIM THAT GDR HAS LATELY ISSUED 3,000 TRADE LICENSES. WE DO NOT KNOW, BUT ASSUME THE 3,000 ARE PART OF THE 10,000 LICENSES REFERRED TO OFFICIALLY IN THE APRIL 20 REPORT.

5. COMMENT: WHILE THE INDICATED INCREASE IN THE NUMBER OF PRIVATELY-OWNED AND OPERATED ENTERPRISES IN THE GDR IS A POSITIVE DEVELOPMENT IN TERMS OF BOTH THE CONSUMER ECONOMY AND AS AN INDICATION THE ECONOMIC POLICY IN THE GDR IS INFLUENCED AND MODERATED BY ECONOMIC REALITIES,

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C O N F I D E N T I A L SECTION 02 OF 02 BERLIN 03679

THE ACCEPTANCE OF A POSITIVE ROLE FOR A SMALL SERVICE-ORIENTED PRIVATE SECTOR APPEARS TO FALL SHORT OF ANY INTERNAL REFORM OR BASIC RETHINKING OF THE ROLE OF PRIVATE ENTERPRISE IN THE SOCIALIST ECONOMY. RATHER, THE MOTIVATION APPEARS TO BE PRAGMATIC, REFLECTING THE NEED TO REACT IN A RESPONSIVE MANNER TO THE NEEDS OF

THE CONSUMING PUBLIC FOR RELATIVELY UNSOPHISTICATED  
SERVICES AT A LOCAL LEVEL. END COMMENT. BOLEN

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## Message Attributes

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**Disposition Approved on Date:**  
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**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 20 Mar 2014  
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Sheryl P. Walter  
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